

## GUIDE TO WRITING A BUSINESS PLAN

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Every new business needs money when starting up. For the majority of businesses, equipment will need to be bought, the workplace established and marketing costs met - all before the first sale is made. Then once you're trading, you'll need cash to pay the bills and keep the business going.

### **Work out your financial requirements**

When starting your business, you need to put together a business plan. This plan sets out how you intend to operate your business and includes essential financial forecasts. These forecasts will help you determine how much funding the business is likely to require, what it is needed for and when you will need the money.

Good planning will also make it easier to raise the money you need. Use your business plan to explain your business to your bank and other potential sources of finance. A good plan helps convince them that you know what you are doing and that it is worth risking their money backing you.

It's essential to have an accurate idea of your financial needs. Once you have calculated the amount you'll need to cover your initial start-up costs, you'll also need to factor in your running expenses. Customers may not pay you immediately - but you will still need to pay all your bills to keep trading. It's sensible to have sufficient capital to cover projected expenses for at least six months. At the same time, you need to make sure that you have taken into account how much money you need to live on. In the early stages, a new business is unlikely to produce spare cash that you can spend on yourself.

### **Choose the best financial option**

The type of finance you choose will depend on what kind of business you are starting, how much money you need and what you will use it for.

- Many people use their own savings or personal borrowings to fund the business. This may be the only choice if you can't convince anyone else to lend you money or invest in the business.
- Family or friends might back you. However you should carefully consider the risk that they could lose their money if your business fails.
- If you have a credible business plan, you may be able to borrow from a bank. Many businesses use overdrafts for day-to-day borrowing and loans to finance large purchases such as equipment. If your business is likely to have peaks and troughs in its cashflow, it's essential to be able to clearly illustrate these to your bank so you can plan an overdraft.
- A larger business with good prospects might attract outside investors. For example, 'business angels' typically invest money in exchange for a share in the business.

Most businesses use a mixture of finance sources. For example, you might invest your own money in market research, bring in outside investors to share the risk and borrow from the bank to purchase equipment and machinery.

## Writing a business plan

A business plan is a written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts. It has many functions, from securing external funding to measuring success within your business. Many people think of a business plan as a document used to secure external funding. This is important because potential investors, including banks, may invest in your idea, work with you or lend you money as a result of the strength of your plan.

You should also bear in mind that a business plan is a living document that will need updating and changing as your business grows. Regardless of whether you intend to use your plan internally or externally, it should still take an objective and honest look at your business. Failing to do this could mean that you and others have unrealistic expectations of what can be achieved and when.

Your business plan should provide details of how you are going to develop your business, when you are going to do it, who's going to play a part and how you will manage the money. Your plan should include:

- An executive summary - this is an overview of the business you want to start. It's vital. Many lenders and investors make judgments about your business based on this section alone.
- The business opportunity - who you are, what you plan to sell or offer, why and to whom.
- Your marketing and sales strategy - why you think people will buy what you want to sell and how you plan to sell to them.
- Your management team and personnel - your credentials and the people you plan to recruit.
- Your operations - premises, production facilities, management information systems and IT.
- Financial forecasts - this translates everything in the previous sections into numbers.

### Executive Summary

The executive summary is a synopsis of the key points of your entire plan. It should include highlights from each section of the rest of the document - from the key features of the business opportunity through to the elements of the financial forecasts.

Its purpose is to explain the basics of your business in a way that both informs and interests the reader. If, after reading the executive summary, an investor or manager understands what the business is about and is keen to know more, it has done its job. It should be concise - no longer than two pages at most - and interesting. It's advisable to write this section of your plan after you have completed the rest.

### Business opportunity

This part of the plan sets out your vision for your new business and includes who you are, what you do, what you have to offer and the market you want to address.

Start with an overview of your business:

- when you started or intend to start trading and the progress you have made to date
- the type of business and the sector it is in
- any relevant history - for example, if you acquired the business, who owned it originally
- the current legal structure
- your vision for the future

Then describe your products or services as simply as possible, defining:

- what makes it different
- what benefits it offers
- why customers would buy it
- how you plan to develop your products or services
- whether you hold any patents, trade marks or design rights
- the key features of your industry or sector

## **Marketing and sales strategy**

In this section you should define your market, your position in it and outline who your competitors are. In order to do this you should refer to any market research you have carried out. You need to demonstrate that you're fully aware of the marketplace you're planning to operate in and that you understand any important trends and drivers. You should also be able to show that your business will be able to attract customers in a growing market despite the competition. Key areas to cover include:

- your market - its size, historical data about its development and key current issues
- your target customer base - who they are and how you know they will be interested
- your competitors - who they are, how they work and the share of the market they hold
- the future - anticipated changes in the market and how you expect to react to them

It is important to know your competitors' strengths and weaknesses as compared to your own - and it is good practice to do a competitor analysis of each one. Remember that the market is not static - your customers' needs and your competitors can change. So, as well as showing the competitor analyses you have undertaken, you should also demonstrate that you have considered and drawn up contingency plans to cover alternative scenarios.

A strong sales and marketing section means you have a clear idea of how you will get your products and services to market. Your plan will also need to provide answers to these questions:

- How do you plan to position your product or service in the market place?
- Who are your customers? Include details of customers who have shown an interest in your product or service and explain how you plan to go about attracting new customers
- What is your pricing policy? How much will you charge for different customers, quantities, etc?
- How will you promote your product or service? Identify your sales methods, eg direct marketing, advertising, PR, email, e-sales.
- How will you reach your customers? What channels will you use? Which partners will be needed in your distribution channels?
- How will you do your selling? Do you have a sales plan? Have you considered which sales method will be the most effective and most appropriate for your market, such as selling by phone, over the internet, face-to-face or through retail outlets?
- Are your proposed sales methods consistent with your marketing plan? And do you have the right skills to secure the sales you need?

## Management team and personnel

Your business plan needs to set out your own background and skills and the structure and key skills of both your management team and your staff. It should identify the strengths in your team and your plans to deal with any obvious weaknesses.

If you're looking for external funding, your management team can be a decisive factor. Explain who is involved, their role and how it fits into the organisation. Include a CV or paragraph on each individual, outlining their background, relevant experience and qualifications. Include any advisers you might have such as accountants or lawyers. If you're looking to satisfy your bank manager or other investors, you need to demonstrate that your management team has the right balance of skills, drive and experience to enable your business to succeed. Key skills include sales, marketing and financial management as well as production, operational and market experience.

Give details of your workforce in terms of total numbers and by department. Spell out what work you plan to do internally and if you plan to outsource any work. Other useful figures might be sales or profit per employee, average salaries, employee retention rates and productivity. Your plan should also outline any recruitment or training plans, including timescales and costs. It's vital to be realistic about the commitment and motivation of your people; spell out any plans to improve or maintain morale.

## Operations

Your business plan also needs to outline your operational capabilities and any planned improvements. There are certain areas you should focus on.

- Do you have any business property?
- What are your long-term commitments to the property?
- Do you own or rent it?
- What are the advantages and disadvantages of your current location?
- Do you need your own production facilities or would it be cheaper to outsource any manufacturing processes?
- If you do have your own facilities, how modern are they?
- What is the capacity compared with existing and forecasted demand?
- Will any investment be needed?
- Have you got established procedures for stock control, management accounts and quality control?
- Can they cope with any proposed expansion?
- IT is a key factor in most businesses, so include your strengths and weaknesses in this area.
- Outline the reliability and the planned development of your systems.

## Financial forecasts

As part of your plan you will need to provide a set of financial projections which translate what you have said about your business into numbers. You will need to look carefully at:

- how much capital you need if you are seeking external funding
- the security you can offer lenders
- how you plan to repay any borrowings
- sources of revenue and income

You may also want to include your personal finances as part of the plan at this stage.

Your forecasts should run for the next three (or even five) years and their level of sophistication should reflect the sophistication of your business. However, the first 12 months' forecasts should have the most detail associated with them. Include the assumptions behind your projection with your figures, both in terms of costs and revenues so investors can clearly see the thinking behind the numbers. Include:

- *Cashflow statements* - your cash balance and monthly cashflow patterns for at least the first 12 to 18 months. The aim is to show that your business will have enough working capital to survive so make sure you have considered the key factors such as the timing of sales and salaries.
- *Profit and loss forecast* - a statement of the trading position of the business: the level of profit you expect to make, given your projected sales and the costs of providing goods and services and your overheads.
- *Sales forecast* - the amount of money you expect to raise from sales. Your forecasts should cover a range of scenarios. New businesses often forecast over-optimistic sales and most external readers will take this into account. It is sensible to include subsidiary forecasts based on sales being significantly slower than you are actually predicting, with one for sales starting three months later expected, and another forecasting a 20 per cent lower level of sales.

Alongside your financial forecasts it is good practice to show that you have reviewed the risks your business could be faced with, and that you have looked at contingencies and insurance to cover these. Risks can include:

- competitor action
- commercial issues - sales, prices, deliveries
- operations - IT, technology or production failure
- staff - skills, availability and costs
- acts of God - fire or flood, terrorism, pandemic flu...

## **Presenting your business plan**

To make sure your business plan has maximum impact, there are a number of points to observe.

Keep the plan short - it's more likely to be read if it's a manageable length. Think about the presentation and keep it professional - even if you only intend to use the plan in-house. Remember, a well presented plan will reinforce the positive impression you want to create of your business.

- Include a cover or binding and a contents page with page and section numbering.
- Start with the executive summary.
- Ensure it's legible - make sure the type is ten point or above.
- You may want to email it, so ensure you use email-friendly formatting.
- Even if it's for internal use only, write the plan as if it's intended for an external audience.
- Edit the plan carefully - get at least two people to read it and check that it makes sense.
- Show the plan to expert advisers - such as your accountant - and ask for feedback. Redraft sections they say are difficult to understand.
- Avoid jargon and put detailed information - such as market research data or balance sheets - in an appendix at the back.